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No. 02-

IN THE

Supreme Court of the United States

XU LIU and XIAOMEI YANG,

Petitioners,

v.

PRICE WATERHOUSE LLP and
COMPUTER LANGUAGE RESEARCH, INC.,

Respondents.

On Petition for Writ of Certiorari
to the United States Court of Appeals for the Seventh Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

The Copyright Act of 1976, as amended, provides that the copyright in a "derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work" and is "independent of * * * any copyright protection in the preexisting material." 17 U.S.C. § 103(b). The Act also provides that "[c]opyright in a work protected under this title vests initially in the author or authors of the work," and that a "transfer of copyright ownership" must be memorialized "in writing and signed by the owner of the rights conveyed." *Id.* §§ 201(a), 204(a). The Act finally provides that "[o]wnership of a copyright * * * is distinct from ownership of any material object in which the work is embodied" *Id.* § 202. The questions presented by this case are:

(1) Whether the copyright in a lawfully created derivative work can initially vest in the owner of the preexisting work rather than the statutory author of the derivative work absent a signed writing memorializing a transfer of ownership?

(2) Where an author has authority to create a derivative work, whether it is a separate infringing "use" of the preexisting material for the author of the derivative work to register the copyright for that work in the author's name?

(3) Whether an ambiguous unsigned writing referring to ownership of computer "code" embodying a work may be interpreted to trump the statutory ownership of the copyright for such work?

PARTIES TO THE PROCEEDINGS BELOW

Appellants in the court of appeals were petitioners Xu Liu and Xiaomei Yang. Liu was the plaintiff and counterclaim defendant in the district court and Yang was a third-part defendant and third-party counterclaimant.

Appellees in the court of appeals were respondents Price Waterhouse LLP and Computer Language Research, Inc. Respondents were also the defendants, counterclaimants, third-party plaintiffs, and third-party counterclaim defendants in the district court.

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PETITION FOR WRIT OF CERTIORARI

Petitioners respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Seventh Circuit.

OPINIONS BELOW

The district court's memorandum opinion and order denying respondents' motion for summary judgment regarding copyright ownership is unpublished but may be found at 1999 WL 47025 and is reproduced herein as Appendix B (pages B1-B9). The district court's order entering judgment on the jury verdict for respondents is unpublished and is reproduced herein as Appendix C (pages C1-C16). The district court's opinion denying petitioners' post-trial motions is published at 182 F. Supp.2d 666, and is reproduced herein as Appendix D

(pages D1-D21). The Seventh Circuit's opinion affirming the district court's decision is published at 302 F.3d 749, and is reproduced herein as Appendix A (pages A1-A13). The Seventh Circuit's order denying rehearing and rehearing *en banc* is unpublished, and is reproduced herein as Appendix E (page E1).

JURISDICTION

The Seventh Circuit issued its opinion on September 10, 2002, and denied rehearing and rehearing *en banc* on October 17, 2002. On December 30, 2002, Justice Stevens extended the time to file this petition to and including February 14, 2003. This Court has jurisdiction to hear this petition pursuant to 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

This copyright case involves Sections 101, 103, 201, 202, and 204 of the Copyright Act of 1976 (as amended), 17 U.S.C. § 101 *et. seq.*

Section 101 provides, in relevant part:

> A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

Section 103(b) provides:

> The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

Section 201 provides, in relevant part:

(a) Initial Ownership.--Copyright in a work protected under this title vests initially in the author or authors of the work. The authors of a joint work are coowners of copyright in the work.

(b) Works Made for Hire.--In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.

* * *

(d) Transfer of Ownership.--

(1) The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.

* * *

Section 202 provides, in relevant part:

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.

Section 204(a) provides:

A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

The above statutory provisions are reproduced at greater length in Appendix F (pages F1-F10).

STATEMENT OF THE CASE[1]

This case involves questions of copyright ownership in the speed-enhancing modifications to a computer program. The modified program is known as China RevUp32 and constitutes a "derivative work," which is "a work based upon one or more preexisting works" 17 U.S.C. § 101. The China RevUp32 program is derivative of an underlying tax-related computer program owned by respondent Price Waterhouse called RevUp32. The overall dispute presented in this petition involves whether the copyright in the improvements contained in the derivative work is initially owned by the authors of that work or the copyright owners of the underlying work.

Petitioner Xiaomei Yang is a computer programmer and former employee of respondent Price Waterhouse. In early 1995, shortly after she had been laid-of by respondent, Yang proposed to Price Waterhouse that she be engaged to find programmers in China to improve the speed of the underlying RevUp32 program. After several months of negotiations, respondent Price Waterhouse engaged Yang to seek out programmers in China to prepare a faster version of that program. The authorization for the creation of such a derivative work was reflected in, among other things, a June 7, 1995 letter from Price Waterhouse to Yang. App. G1-G2. That letter stated that Price Waterhouse would pay a fee based upon the percentage improvement in speed "[u]pon successful completion of acceptance testing and verification of the speed increase." The letter further stated that:

> The Tax Technology Group will supply the source code for RevUp and Runtime. It is clearly understood that the source code is the sole property of Price Waterhouse and Price Waterhouse gives no authority, implied

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[1] Unless otherwise noted, the facts are taken from the Seventh Circuit and district court opinions, attached as Appendices A, B, and D.

> or otherwise, to distribute or copy this source code in any way. Upon completion of the project, ALL source code will be given back to Price Waterhouse.
>
> If this project is successful, Price Waterhouse will consider the same consultants as strong candidates for future development projects.

App. G2.

Through contacts with her former husband, petitioner Yang thereafter located programmers from the Sky Company in China to do the programming. It was undisputed at trial that the Sky Company programmers were independent contractors and that neither they nor any authorized representative for them signed the June 7, 1995 letter.

The Sky Company programmers thereafter created the derivative China RevUp32 program and, in October 1995, forwarded it to Price Waterhouse for testing. The program had a 264% increase in operating speed.

In December 1995, Price Waterhouse sent Yang a draft agreement seeking an assignment of copyrights in the China RevUp32 program. Prior to this document, which the Sky programmers refused to sign, there was never any mention of copyrights in any other document related to this case. Also in December 1995, and without notice to Yang or the Sky programmers, Price Waterhouse ostensibly sold all right, title and interest in the China RevUp32 program to respondent Computer Language Research.

In February 1996, and on the recommendation of Yang's former husband, the Sky programmers assigned the copyright in the derivative China RevUp32 program to Liu, Yang's daughter, to have her represent them as their fiduciary agent in the United States.

In March 1996, Liu registered the copyright in the China RevUp32 program with the United States Copyright Office.

In April 1997, Liu sued the respondents for copyright infringement regarding the China RevUp32 program. Respondents filed a counterclaim against Liu for copyright infringement, alleging that Liu infringed their copyright in the China RevUp32 program and in the underlying program by filing a copyright registration for the derivative program. Price Waterhouse and CLR also filed a third-party complaint against Yang, alleging, *inter alia*, contributory copyright infringement and breach of fiduciary duty.

In January 1999 the district court denied various motions to dismiss and for summary judgment on the issue of copyright ownership. The court denied summary judgment to respondents on the alleged invalidity of Liu's (and hence the Sky programmers') copyright in the derivative program and denied the various other motions based upon the existence of fact issues for the jury. App. B9.

On November 22, 2000, the court entered judgment on a jury verdict against petitioners on the various copyright claims. App. C1-C2. The verdict was mixed as to the other third-party claims and counterclaims. *Id.* The jury also determined, through special interrogatories, that: The Sky programmers were the sole and exclusive authors of the China RevUp32 program; Yang was not a joint author of the program; and Yang was an employee of Price Waterhouse while she was in China in 1995. App. C15.

On February 28, 2001, the district court denied petitioners' post-trial motions for judgment as a matter of law or for a new trial on a variety of issues, including the issues relating to copyright ownership relevant to this petition. App. D2.

The court held that although the program was *not* a work for hire, App. D13 n. 3 – and hence Price Waterhouse was *not* the statutory author – initial ownership of the copyright in the derivative work nonetheless vested in Price Waterhouse based on "'the parties' intent." App. D14. Such intent was purportedly found in the June 7, 1995 letter, notwithstanding the

court's acknowledgement that: (1) the letter was ambiguous; (2) the Sky Company authors "did not sign the letter agreement"; and (3) the agreement would not satisfy the requirements of 17 U.S.C. § 204(a) regarding transfers of copyright ownership. App. D13-14. Rather, the court offered the startling conclusion that the "contractual agreement as found by the jury trumps the Copyright Act's presumptive vesting of copyright protection with the author of the derivative work." App. D12.

Petitioners appealed to the Seventh Circuit, arguing that, as a matter of law, respondents could not own the copyrights in the China RevUp32 program because the authors of that work did not sign a written document transferring copyright ownership to Price Waterhouse. *See* 17 U.S.C. § 204(a) ("transfer of copyright ownership, other than by operation of law, is not valid unless" memorialized "in writing and signed by the owner of the rights conveyed").

The Seventh Circuit affirmed.

According to the court of appeals, the "June 7, 1995 letter agreement authorized Yang to recruit the Sky Company programmers to use its original work to prepare a derivative work." App. A8. Looking to the "intent of the parties" to interpret the "ambiguous" language of the letter and viewing that "language in a light most favorable to" respondents, the court concluded that "the license agreement provided that Price Waterhouse, not the Sky Company programmers, would obtain copyright ownership of the China RevUp32 program." *Id.* The court further held that "obtaining copyright protection in the derivative work was beyond the scope of the permissible uses authorized by the June 7, 1995 letter agreement." *Id.*

Based on these two premises, the court dismissed the statutory requirement of a signed writing by holding that "because the Sky Company programmers *never had any ownership interest* in the copyrights in the derivative China

RevUp32 program, 17 U.S.C. § 204(a) is inapplicable." App. A9 (emphasis added). Quoting the district court, the Seventh Circuit contended that derivative authors are merely the "presumptive owners of copyright rights in their contribution," that parties may "adjust those rights by contract," and that the parties here "did just that" notwithstanding the "ambiguity in the letter agreement" and "even though those subsequent authors, the Sky Company Programmers, did not sign the letter agreement." *Id.*

Petitioners sought rehearing and rehearing *en banc*, both of which were denied. App. E1.

This petition for certiorari followed.

REASONS FOR GRANTING THE WRIT

Certiorari should be granted because the decision below flagrantly contradicts the plain language of the Copyright Act and the holdings of this Court, vitiating Congress' express protections for "authors" of copyrightable derivative works. The decision also conflicts with the principles enunciated by other courts of appeals on the issues of initial ownership by authors and the nature of copyright creation and registration for derivative works. If allowed to stand, the decision below will have a sweeping and destructive nationwide impact on copyright protection for authors not only of computer programs, but also of derivative works such as motion pictures, television shows, magazines, internet content, music recordings, and graphic art.[2]

The wide distribution of copyrighted works will allow non-author claimants from around the country to bring their actions in the Seventh Circuit, thus amplifying the harm

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[2] A "derivative work" is a "work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted." 17 U.S.C. § 101.

caused by this decision regardless of how other circuits might resolve the issue. And the decision also will interfere with the Copyright Office's administration of the copyright registration and certification system, rendering increasingly uncertain both the ownership and the use of copyrighted materials and conflicting with the Copyright Office's certification standards. By thus interfering with both private parties nationwide and the Copyright Office in connection with its administration of the Act, the decision below will create far greater damage than might normally be inflicted by an erroneous ruling in a single circuit.

I. THE SEVENTH CIRCUIT'S DECISION CONFLICTS WITH THE PLAIN LANGUAGE OF THE COPYRIGHT ACT OF 1976, THE DECISIONS OF THIS COURT, AND THE INTERPRETATIONS OF THE COPYRIGHT OFFICE.

This case warrants review because the Seventh Circuit's decision ignores the most basic requirements of the Copyright Act regarding authorship, ownership, and the nature of derivative works. In doing so the decision thwarts Congress' express intent to protect the copyright ownership of authors.

While acknowledging that the Sky Company programmers were authorized to *create* the derivative China RevUp32 program, and were the lawful "authors" of that program, the Seventh Circuit nonetheless concluded that those authors "*never* had any ownership interest in the copyrights in the derivative China RevUp32 program," and thus § 204(a)'s signed-writing requirement for the *transfer* of ownership "is inapplicable." App. A9 (emphasis added). The flaws in the Seventh Circuit's reasoning are legion.

A. Copyright Ownership Initially Vests in the Author of Any Given Work and Shifts to Non-Authors Only by Transfer.

The plain language of the Copyright Act expressly addresses the question of the initial ownership of copyright rights and provides, in relevant part:

> Copyright in a work protected under this title vests initially in the author or authors of the work.

17 U.S.C. § 201(a).

It is undisputed that the Sky Company programmers are the statutory "authors" of the China RevUp32 program, as the jury expressly found. App. C15. It also is undisputed that the program was *not* a work for hire, App. D13 n. 3, and thus Price Waterhouse cannot claim to be the "author" of the work under the work-for-hire provisions of §§ 101 and 201(b). Absent any issue regarding authorship, initial ownership of the copyright is a foregone conclusion: such ownership vests in the Sky Company programmers as the authors of the work.[3]

In light of the express, unambiguous, and unqualified statutory answer to the question of who initially owns the copyright in a work, the Seventh Circuit's holding that the statutory authors "*never* had any ownership interest in the copyrights" is plain error. Regardless whether the June 7 letter between Price Waterhouse and its own agent Yang might erroneously be thought to create an agreement with the independent programmers "that Price Waterhouse, not the Sky Company programmers, would obtain copyright ownership of the China RevUp32 program," App. A8, that simply has nothing to do with *initial* copyright ownership. At best the Seventh Circuit's imagined agreement might be construed as an agreement to *transfer* ownership to Price Waterhouse. But it could not possibly alter the unqualified statutory vesting of initial copyright ownership in the undisputed "authors" of the work. *See* 17 U.S.C. §§ 201(a).

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[3] That result may in fact be constitutionally mandated given that the Copyright Clause only empowers Congress "To promote the Progress of Science" by securing to "Authors" the "exclusive Right to their respective Writings." UNITED STATES CONSTITUTION, Art. I, sec. 8, cl. 8. Any copyrights thus must be secured at least initially to "Authors," though once so secured they later may be transferred by such authors.

And while such copyright ownership, of course, may be "transferred" the June 7 letter does not even remotely satisfy the statutory requirements for a transfer of ownership. The Copyright Act requires that such transfers, if not by operation of law, must be memorialized by a written instrument signed by the party transferring the exclusive copyright rights. *See* 17 U.S.C. § 204(a) ("A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is *in writing and signed by the owner of the rights conveyed* or such owner's duly authorized agent.") (emphasis added).[4]

The primacy of authorship as the touchstone of ownership has been acknowledged by virtually every authoritative source other than the Seventh Circuit. This Court, for example, recognized in *Community for Creative Non-Violence* v. *Reid*, that the "Copyright Act of 1976 provides that copyright ownership 'vests initially in the author or authors of the work.' 17 U.S.C. § 201(a). As a general rule, the author is the party who actually creates the work * * *." 490 U.S. 730, 737 (1989) ("*CCNV*") (footnote omitted). While the Seventh Circuit's departure from the statutory language on copyright ownership is troubling under any circumstances, it is a particularly unacceptable under the 1976 Act. As this Court admonished in *CCNV*, "[s]trict adherence to the language and structure of the Act is particularly appropriate where, as here, a statute is the result of a series of carefully crafted compromises." 490 U.S. at 748 n. 14 (citations omitted).

The leading and oft-quoted treatise in the field likewise grasps the plain meaning of the statute and characterizes the initial vesting of ownership in authors as "unqualifiedly true"

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[4] While transfers that result by operation of law need not be evidenced by a signed writing, there is no contention that this case presents such a transfer. Rather, the contention is that the programmers allegedly relinquished their ownership rights to Price Waterhouse. Such a transfer of rights from the authors to another must be evidenced by a signed writing.

for works created from 1978 onward. 1 Melville Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 5.01[A], at 5-4.1 (2002) ("NIMMER"). The treatise goes on to explain that

> authorship is a *sine qua non* for any claim of copyright * * *. That is, the person claiming copyright must either himself be the author, or he must have succeeded to the rights of the author.

Id. Authorship or a transfer of rights from the author are the only valid means of copyright ownership. The Seventh Circuit's third path of changing the initial ownership without changing authorship is simply invented from whole cloth.

Finally, the United States Copyright Office also recognizes that ownership must start with the author. While the Copyright Office differs from the Patent Office in that it does not issue copyrights, it does have the statutory responsibility to administer a system of copyright registration and certification. *See* 17 U.S.C. § 409 ("application for copyright registration shall be made on a form prescribed by the Register of Copyrights"). Among the information that Congress required in the application for such registration is information regarding authorship and ownership. *Id.* (application "shall include– * * * (5) if the copyright claimant is not the author, a brief statement of how the claimant obtained ownership of the copyright; * * * and (11) any other information regarded by the Register of Copyrights as bearing upon the preparation or identification of the work or the existence, ownership, or duration of the copyright").[5]

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[5] The specific requirements of § 409 were "intended to give the Register of Copyrights authority to elicit all of the information needed to examine the application and to make a meaningful record of registration," and Clause 5 of that section reflects the "increased importance of the interrelationship between registration of copyright claims and recordation of transfers of ownership." H.R. REP. 94-1476, 1976 U.S.C.C.A.N. 5659, 5771-72 (Sept. 3, 1976).

In furtherance of its responsibility to record the ownership of copyrights and to determine whether "the material deposited constitutes copyrightable subject matter and that the other legal and formal requirements of [Title 17] have been met," 17 U.S.C. § 410(a), the Copyright Office has issued guidance regarding who owns, and hence may register, a copyright:

> Only those deriving their rights through the author can own copyright in the work. The author may transfer all or part of the copyright to someone else. Copyright protection exists from the time the work is created and fixed in some tangible form. The copyright immediately becomes the property of the author upon fixation.

Copyright Office, CIRCULAR 12, Recordation of Transfers and other Documents 2 (June 2002) (available at www.copyright.gov/circs/circ12.pdf); *see also* 37 C.F.R. § 202.3(a)(3) ("For the purposes of this section, a copyright claimant is either: (i) The author of a work; (ii) A person or organization that has obtained ownership of all rights under the copyright initially belonging to the author.") (footnote omitted). Consistent with its recognition that copyright ownership can only arise from authorship or transfer, the Copyright Office has issued specific guidance on a non-author's need for a transfer statement. *See* COMPENDIUM OF COPYRIGHT OFFICE PRACTICES § 623.02, at 600-118 to -119 (1984 & Supp. Feb. 1988) (COMPENDIUM II) ("Where a claimant (or co-claimant) is not an author" and the application is signed by a non-author, "the application must contain a transfer statement").[6]

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[6] Any implication by the court of appeals that Price Waterhouse was merely *reserving* an existing right of ownership in the copyrights for derivative works, App. A8-A9, misconceives the nature of copyrights. Just as a copyright holder has the exclusive right to create copies of a work but does not initially own the copies so created unless he makes them himself, so it is with the new copyright in a derivative work. If the owner of the underlying rights directly creates a derivative work, he would then own the copyright to that further work. But if he licenses the underlying crea-

Indeed, the Copyright Office has addressed its guidance to the precise situation where the owner of a preexisting work seeks copyright in a derivative work prepared by another and has concluded that such a claim requires a transfer statement. *Id.* § 623.02(e), at 600-122 to -123 ("A transfer statement is required where the claimant is not the author of * * * new material in a derivative work. Therefore, where the author of the preexisting material and the author of the new material are different persons, and the author of the preexisting material is the claimant of the new work, the application should indicate how he or she obtained ownership of copyright in the new material."). Such guidance plainly applies to this case and conflicts with the holding of the Seventh Circuit that no transfer was involved in shifting ownership of the derivative China RevUp32 copyright from the authors to Price Waterhouse.

Even assuming, *arguendo*, that an author's initial copyright ownership were merely presumptive rather than definitive, the agreement the Seventh Circuit imagines as "adjust[ing]" such presumptive ownership nonetheless constitutes a "transfer" of the exclusive rights governed by the Copyright Act, and thus is subject to the signed-writing requirement of § 204(a). The Copyright Act defines a "'transfer of copyright ownership' as an *assignment*, mortgage, exclusive license, *or any other conveyance, alienation, or hypothecation of a copyright* or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license." 17 U.S.C. § 101.

That definition is more than broad enough to include the alleged anticipatory agreement to assign a future copyright to someone other than its presumptive owner. The purported

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tive right to a third party, the copyright resulting from such further creation is the initial property of the third-party derivative author. The Seventh Circuit's contrary reasoning confuses the *result* of exercising a right with the right itself.

agreement relied upon by the Seventh Circuit can be seen only as the transfer of an expectancy in the ownership of a future copyright or as a *promise* to transfer ownership of a future copyright. Either way, § 204(a) governs the purported exchange. Indeed, this case stands as an archetypical example of the need for the signed writing requirement. Under the Seventh Circuit's conception, the Sky Company programmers have forfeited their authorship rights as a result of a purported agreement between Price Waterhouse *and its own agent* Yang, without the programmers ever having seen, much less agreed to, the June 7 letter prior to creating their derivative work.[7] The utter absurdity of that result makes a wreckage of the Copyright Act's policy of protecting "authors."

B. Registering Copyright Ownership in an Authorized Derivative Work Is Not an Unauthorized "Use" of the Underlying Work.

In addition to abandoning the provisions of the Copyright Act concerning authorship, ownership, and transfers, the decision below adopts a statute-defying conception of unauthorized "use" of an underlying work and completely disregards the Copyright Act's distinction between the creation and registration of copyrights.

There is no dispute in this case that the Sky Company programmers were fully authorized to use the underlying RevUp32 program to *create* the derivative China RevUp32 program. The Seventh Circuit, however, imagined that, separate from the creation of the derivative work, "obtaining copyright protection in the derivative work was beyond the scope of the permissible uses authorized by the June 7, 1995 letter agreement." App. A8. Once again, the statute, this

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[7] Yang was not an agent for the Sky Company programmers, as the district court itself recognized, App. D13 n. 3, and thus Yang could not have authorized any abdication of the programmers' copyright rights. 17 U.S.C. § 204(a) (writing signed by copyright owner or authorized agent).

Court, and the Copyright Office all contradict the Seventh Circuit's reasoning.

First, merely "obtaining" copyright protection for a derivative work does not involve any "use" at all, much less a use that is distinct from creating the derivative work itself. Section 106 defines the various acts a copyright owner has the "exclusive rights to do or to authorize," including "to reproduce" the work, "to prepare derivative works," "to distribute copies" of the work, "to perform the copyrighted work publicly," and "to display the copyrighted work publicly." 17 U.S.C. § 106; *see also Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 433 (1984) (an infringer is "anyone who trespasses into [the copyright owner's] exclusive domain by using or authorizing the use of the copyrighted work *in one of the five ways set forth in the statute*") (emphasis added). Notably absent from the definition of such "uses" is the creation of a copyright in a derivative work lawfully "prepare[d]." The absence in the statute of the distinction created by the Seventh Circuit is not surprising given such protection does not involve any act other than the creation of that derivative work. *See* 17 U.S.C. § 101 ("work is 'created' when it is fixed in a copy or phonorecord for the first time"); § 102(a) ("Copyright protection subsists * * * in original works of authorship fixed in any tangible medium of expression").

The Copyright Office corroborates the automatic nature of protection, explaining that "[c]opyright protection exists from the time the work is created and fixed in some tangible form. The copyright immediately becomes the property of the author upon fixation." Copyright Office, CIRCULAR 12, at 2. Such protection is inseparable from the act of authorship, and is "obtain[ed]" as a matter of law from that act alone. *See* 2 NIMMER § 7.16[A][1] at 7-147 (2002) ("Copyright automatically inheres in a work the moment it is 'created,' which is to say 'when it is fixed in a copy or phonorecord for the first time.'"). Because copyright protection necessarily co-

existed with the act of authorship of the derivative program, it needed no separate authorization from Price Waterhouse.

Second, if the Seventh Circuit instead meant to find, as respondents had argued, that *registering* a copyright, rather than simply obtaining copyright "protection," constituted a separate use, its reasoning would conflict with still more provisions of the Act. Registering a derivative copyright still would not be a "use" of the underlying work because the copyright for a derivative work *does not impact* the underlying work at all. The Copyright Act makes it abundantly plain, that the "copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material." 17 U.S.C. § 103(b).[8]

As this Court has recognized, the "aspects of a derivative work added by the derivative author are that author's property." *Stewart* v. *Abend*, 495 U.S. 207, 223 (1990). That distinct property right is independent from rights of the copyright owner of the preexisting material and registration of the derivative copyright impacts only the derivative author's own property, not the copyrights in the underlying material. *Cf. id.* at 232 (discussing the used-with-consent requirement for copyrighting derivative works under § 7 of the 1909 Act: "a derivative work author may not employ a copyrighted work without the author's permission, although of course he can obtain copyright protection for his own original additions.").

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[8] *See also* H.R. REP. 94-1476, 1976 U.S.C.C.A.N. at 5670 ("The most important point here is one that is commonly misunderstood today: copyright in a 'new version' covers only the material added by the later author, and has no effect one way or the other on the copyright or public domain status of the preexisting material.").

The Copyright Office likewise recognizes the discrete and separate nature of the registration for the derivative copyright and any rights or interests in the underlying copyright. *See, e.g.*, COMPENDIUM II § 108.04, at 100-4 (1984) ("Where part of the Work * * * was covered by a previous registration, the copyright claim as reflected in the application should generally be limited to the new material covered by the claim being registered."); *id.* § 306.01, at 300-6 ("The copyright in a derivative work extends only to the material contributed by the author of such work * * * and does not imply any exclusive right in the preexisting material."). Administering the registration system is precisely within the statutory duties of the Copyright Office and hence that Office's understanding on this point is especially persuasive. Indeed, the Copyright Office even has had occasion to consider registration of computer programs such as the one in this case and has stated that "[r]egistration for a derivative computer program covers only the additions, changes, or other new material appearing in the program for the first time." *Id.* § 323.01, at 300-17.

Once a derivative work is lawfully created, therefore, any later steps required to protect the derivative author's ownership interests involve no assertion of dominion or rights regarding the underlying work, do not affect the copyright of that underlying work, and thus cannot cogently be characterized as separate "uses" of the underlying work without rewriting the Copyright Act.[9]

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[9] Even if registration constituted an infringing "use" of the underlying copyright, it would undoubtedly be a "fair use" given that merely registering existing ownership is expressly authorized by statute. 17 U.S.C. § 408(a) ("At any time during the subsistence of * * * [the copyright], the owner of copyright or of any exclusive right in the work may obtain registration of the copyright * * *. Such a registration is not a condition of copyright protection."). Furthermore, because initial copyright ownership *precedes* registration, even were registration an infringing use of the prior material it could not alter derivative author's already existing ownership of the derivative copyright. And in no circumstance would such supposed infringement mean that *Price Waterhouse* owned the copyright in the de-

Just as this Court in *Stewart* refused to "read into the Copyright Act a limitation on the statutorily created rights of the owner of an underlying work," *Stewart*, 495 U.S. at 216, so too should it refuse to read into the Act novel and non-textual means of repealing the ownership rights of derivative authors.

C. The Seventh Circuit's Interpretation of the June 7, 1995 Letter Conflicts with the Copyright Act's Distinction between a Work and Its Copyright.

In addition to its errors regarding the fundamentals of copyright ownership and transfer, the Seventh Circuit ignored the statute when it came to *interpreting* the June 7 letter to constitute a contractual "adjust[ment]" of copyright ownership. App. A9. While such contract interpretation is normally a matter of state law, it raises a federal question where, as here, it conflicts with the terms or policies of the Copyright Act. As this Court said in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229 (1964), federal patent and copyright law "like other laws of the United States enacted pursuant to constitutional authority, are the supreme law of the land * * *. When state law touches upon the area of these federal statutes, it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law." (citations omitted).

The Seventh Circuit's interpretation of the June 7 letter as altering the initial ownership of the copyright in the China RevUp32 program runs afoul of the Copyright Act's express distinction between ownership of the copyright in a work and ownership of particular *manifestations* of the work.

The Price Waterhouse language on which the Seventh Circuit relied provided that Price Waterhouse "will supply the source code for RevUp" and another program, that "the

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rivative work. At best there would be a standoff with neither respondents nor the derivative authors able to make use of the derivative work without the other parties' consent.

source code is the sole property of Price Waterhouse," that the source code may not be copied or distributed, and that, "[u]pon completion of the project, ALL source code will be given back to Price Waterhouse." App. G2. But ownership of the "code" itself does not, as a matter of federal law, establish ownership of the *copyright* to that code. "Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied." 17 U.S.C. § 202.

Indeed, even assuming, *arguendo*, that the June 7 letter even refers to any *new* code, rather than merely the return of all *old* code initially provided by Price Waterhouse, it still would only describe a transfer of the embodiment of the derivative work, not the copyright to that work.[10] As specifically provided by the Copyright Act, the "[t]ransfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, *does not of itself convey any rights in the copyrighted work* embodied in the object * * *." 17 U.S.C. § 202 (emphasis added); *see also* 3 NIMMER § 10.09[A], at 10-76 (sale of original work will not

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[10] The language of the June 7 letter itself suggests that the "code" it refers to is not the newly created derivative code, but rather only the *original* RevUp32 source code provided by Price Waterhouse, which was to be "given back to Price Waterhouse." App. G2. Price Waterhouse could not be given "back" something they had never before possessed, and thus it is difficult to imagine how this language could possibly refer to the newly created and original contributions of code to the derivative product. Furthermore, the letter itself implicitly distinguishes between "code" and the copyright in such code in that it transfers certain source code to the programmers, but plainly does not transfer the copyright to *that* code. In reading the language that the code will be "given back," it is more than passing strange that the Seventh Circuit would construe the parallel word "code" as requiring "back" more – *i.e.*, all separate copyright rights in newly authored derivative code – than was provided in the first place.

transfer copyright or any rights thereunder in the absence of specific written conveyance of rights).[11]

II. THE DECISION BELOW CREATES CIRCUIT SPLITS ON MULTIPLE EMBEDDED ISSUES.

Given the plain error of the Seventh Circuit's holdings that a non-author can have initial ownership of a copyright, that obtaining copyright protection for an authorized work can constitute an infringing use, and that ownership of an embodiment of a work includes ownership of the copyright in that work, it should hardly be a surprise that those elements of the court's decision create conflicts with cases from other circuits.

A. Ownership Vests Only by Authorship or Transfer Memorialized by a Signed Writing.

It is well recognized in circuits other than the Seventh that the statutory author is the initial owner of a copyright, and that all other putative owners must be successors to the initial ownership rights of the author. The Eleventh Circuit, for example, has considered the initial ownership of the copyright in drawings prepared by an independent architectural firm at the request of a builder where there was "an oral agreement * * * that the copyright in the * * * plan would be owned by" the builder. *Arthur Rutenberg Homes, Inc.* v. *Drew Homes, Inc.*, 29 F.3d 1529, 1530 (CA11 1994). But despite the undisputed intent of the parties regarding ownership of the copyright in the work, the court held that the "original owner of the copyright in the * * * drawings was Heise, the author

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[11] Indeed, the 1976 Act specifically reversed the type of presumption applied by the Seventh Circuit in this case. The former common-law rule that "authors or artists are generally presumed to transfer common law literary property rights when they sell their manuscript or work of art * * * would be reversed under the bill [that became the 1976 Act], since a specific written conveyance of rights would be required in order for a sale of any material object to carry with it a transfer of copyright." H.R. REP. 94-1476, 1976 U.S.C.C.A.N. at 5740.

* * * because the Copyright Act of 1976 provides that ownership vests in the author (Heise) as the party who actually creates the work." *Id.* The court then quoted § 204(a)'s requirement of a signed writing for transfer of copyright ownership and held that the builder "could have become the owner of the copyright only if there were such a writing." *Id.* at 1531.

The decision below thus conflicts with *Rutenberg* both on the issue of initial ownership by the author and on the related issue of whether to characterize a prior agreement allocating copyright ownership as a "transfer" of ownership subject to the requirements of § 204(a).

Other circuit courts similarly adhere to the statutory dictate that initial ownership vest in the author and that all others take only through transfer from the author. *See Aymes* v. *Bonelli* 980 F.2d 857, 864 (CA2 1992) (computer program created by "an independent contractor" is "not a work for hire [and programmer] therefore owns the copyright as author of the program."); *Effects Associates, Inc.* v. *Cohen,* 908 F.2d 555, 557 (CA9 1990) ("where a non-employee contributes to a book or movie, as Effects did here, the exclusive rights of copyright ownership vest in the creator of the contribution, unless there is a written agreement to the contrary"), *cert. denied* 498 U.S. 1103 (1991); *cf. Epoch Producing Corp.* v. *Killiam Shows, Inc.*, 522 F.2d 737, 743 (CA2 1975) (under similar § 9 of the 1909 Act, "person claiming this initial [28-year copyright] term must either himself be the author of the copyrightable work * * * or he must have succeeded to the rights of the author through an assignment or other device. [citing NIMMER]."), *cert. denied* 424 U.S. 955 (1976).

B. Registering the Copyright in a Derivative Work Is Not a "Use" of the Underlying Work Distinct from Creating that Work.

The Seventh Circuit's holding that obtaining or registering the copyright in a derivative work constitutes a potentially

infringing "use" of the pre-existing work not only conflicts with the Act, this Court's cases, and the leading authority on copyright law, it again is incompatible with the holdings of other courts of appeals.

The Eleventh Circuit, for example, readily recognizes that copyright protection inheres in the act of creation rather than constituting a separate act. *See Montgomery* v. *Noga,* 168 F.3d 1282, 1288 (CA11 1999) ("For original computer programs and other original works of authorship created after 1977, copyright automatically inheres in the work at the moment it is created without regard to whether it is ever registered."); *Arthur Rutenberg Homes,* 29 F.3d at 1531 ("Copyright inheres in authorship and exists whether or not the work is ever registered. The Copyright Act makes clear that registration is a separate issue from the existence of the copyright itself * * *."); *see also Well-Made Toy Mfg. Co.* v. *Goffa Int'l Corp.*, 210 F. Supp.2d 147, 157 (E.D.N.Y. 2002) (Weinstein, S.J.) ("For any work created after January 1, 1978, copyright automatically inheres upon the work's creation.").

Those cases are incompatible with the Seventh Circuit's holding that obtaining copyright protection is an unauthorized use separate from the authorized creation of the derivative work given that "copyright protection attaches at the time of an author's creation." *Donald Frederick Evans & Assocs., Inc.* v. *Continental Homes, Inc.,* 785 F.2d 897, 904 & n. 10 (CA11 1986). The creation of a derivative work and copyright protection of that work are simultaneous occurrences. That the author and copyright owner of the derivative work then completes the mere formality of registering his *existing* property is not a substantive event.

Other courts of appeals also have recognized that the copyright in a derivative work does not have *any* impact on the underlying work, but rather extends only to the new and original elements of the derivative work. *See, e.g., Silverman* v. *CBS Inc.*, 870 F.2d 40, 49 (CA2) ("copyrights in derivative works secure protection only for the incremental additions of

originality contributed by the authors of the derivative works"), *cert. denied*, 492 U.S. 907 (1989); *Durham Industries, Inc.* v. *Tomy Corp.*, 630 F.2d 905, 909 (CA2 1980) ("Thus the only aspects of [a derivative work] entitled to copyright protection are the non-trivial, original features, if any, contributed by the author or creator of those derivative works."; "scope of protection afforded a derivative work * * * must not in any way affect the scope of any copyright protection in that preexisting material"); *Russell* v. *Price*, 612 F.2d 1123, 1128 (CA9 1979) (reaffirming "well-established doctrine that a derivative copyright protects[] only the new material contained in the derivative work, not the matter derived from the underlying work") (footnote omitted), *cert. denied*, 446 U.S. 952 (1980).

Such recognition of the independence of the derivative copyright thus cannot coexist with any claim that subsequent *registration* of the derivative copyright constitutes a separate use of the underlying work. Because registration relates only to the legally independent new material present in the derivative work, not to the preexisting material in that work, it does not "use" such preexisting material.

C. Language Discussing Only Ownership of "Code" Does Not Encompass the Copyright in that Code.

As with the Seventh Circuit's other errors, cases from other circuits likewise contradict the holding below that an agreement as to an embodiment of a copyrighted work governs ownership of the copyright in that work. *See, e.g.*, *Saxon* v. *Blann*, 968 F.2d 676, 680 (CA8 1992) (transfer of "'ownership rights'" to a book "did not transfer the copyright of" the book because "'[o]wnership of a copyright * * * is distinct from ownership of any material object in which the work is embodied,'" and the parties did not "state in writing that they intend to transfer a copyright") (quoting 17 U.S.C. § 202 and citing § 204(a)); *Donald Frederick Evans & Assocs.*, 785 F.2d at 904 & n. 10 (CA11) (no evidence that "the author of the work, Evans, did not retain ownership of the copyright in the

work regardless of who owned the actual drawings"; "Copyright Act expressly distinguishes between ownership in the work copyrighted and ownership in the copyright for a work"); *cf. United States* v. *Smith*, 686 F.2d 234, 240 (CA5 1982) ("a copyright is independent of both its physical manifestation and the very thing that is copyrighted").

Other circuits also recognize that when interpreting supposed contracts relating to exclusive copyrights rights, courts "rely on state law * * * only to the extent such rules do not interfere with federal copyright law or policy." *S.O.S., Inc.* v. *Payday, Inc.*, 886 F.2d 1081, 1088 (CA9 1989); *see also id.* ("The license must be construed in accordance with the purposes underlying federal copyright law."); *cf. Radio Television Espanola, S.A.* v. *New World Entertainment, Ltd.*, 183 F.3d 922, 929 n. 7 (CA9 1999) ("[F]or grants of exclusive licenses, any meeting of the minds must be accompanied by a writing satisfying 17 U.S.C. § 204(a). Section 204(a) cannot be circumvented by parties arguing that the exclusive license was granted in a contract satisfying state common law.").

In this case, the Seventh Circuit interpreted the June 7 letter in a manner incompatible with the Copyright Act and incompatible with the holdings of other circuits that ownership of a particular work does not constitute ownership of the copyright in that work. Regardless of the Seventh Circuit's dubious contract construction in general, therefore, its disregard for the primacy of the Act over state common law regarding the intent of the parties conflicts with holdings of its sister circuits and should be reviewed by this Court.

III. THIS CASE RAISES IMPORTANT NATIONAL ISSUES THAT SHOULD BE RESOLVED BY THIS COURT.

The damage caused by the Seventh Circuit's decision in this case is both significant and widespread. Derivative works constitute a truly enormous amount of copyrightable material, including such things as music, television shows, magazine articles, web-site contributions, computer software,

and video games. *See* 17 U.S.C. § 101 (definition of "derivative work" includes "a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, * * * editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship"); *see also National Broadcasting Co., Inc.* v. *Sonneborn*, 630 F. Supp. 524, 532 (D. Conn. 1985) (television production of "Peter Pan" was derivative work distinct from the theatrical production being taped); *M. Kramer Mfg. Co.* v. *Andrews*, 783 F.2d 421, 428 (CA4 1986) (discussing registration of derivative video poker games).

By rewriting the rules on copyright ownership, use, and transfer, the Seventh Circuit casts a pall of uncertainty over a plethora of past and future transactions involving a wide array of derivative works. That result is fundamentally destructive of Congress' vital goals of improving "predictability and certainty of ownership," avoiding "fraudulent claims" against authors, and improving marketability of copyrights by making ownership rights "clear and definite." *Konigsberg Intern. Inc.* v. *Rice*, 16 F.3d 355, 357 (CA9 1994) (citations and quotation marks omitted). Such consequences flow with particular force from the court's circumvention of § 204(a)'s signed-writing requirement and its substitution of an indeterminate factual analysis of the parties' intent. *See, e.g., Imperial Residential Design, Inc.* v. *Palms Development Group, Inc.*, 70 F.3d 96, 99 (CA11 1995) ("chief purpose" of § 204(a) "is to resolve disputes between copyright owners and transferees and to protect copyright holders from persons mistakenly or fraudulently claiming oral licenses or copyright ownership").[12]

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[12] *See also Playboy Enterprises, Inc.* v. *Dumas*, 53 F.3d 549, 559 (CA2) (in work-for-hire context, purpose of writing requirement to make copyright ownership "clear and definite," and to enhance "predictability"), *cert. denied*, 516 U.S. 1010 (1995); *Effects Associates*, 908 F.2d at 557 ("Section 204 ensures that the creator of a work will not give away his

Under the Seventh Circuit's new approach, authors may lose their copyright without *any* notice whatsoever, based entirely on communications to which they were neither party nor privy. This Court in *CCNV* forcefully rejected a far less bizarre distortion of Congress' fundamental goals, finding that a particular construction of the work-for-hire provisions of the Act "would impede Congress' paramount goal in revising the 1976 Act of enhancing predictability and certainty of copyright ownership." 490 U.S. at 749; *id.* at 750 (difficult-to-predict test would have "clearly thwart[ed] Congress' goal of ensuring predictability through advance planning" and left "'the door open for hiring parties, who have failed to get a full assignment of copyright rights from independent contractors falling outside the subdivision (2) guidelines, to unilaterally obtain work-made-for-hire rights.'") (citation omitted).[13]

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copyright inadvertently" and forces negotiation over "precisely what rights are being transferred and at what price. * * * Most importantly, section 204 enhances predictability and certainty of copyright ownership – 'Congress' paramount goal' when it revised the Act in 1976.") (citation omitted).

[13] And while this case does not itself involve a work for hire, the Seventh Circuit's holding would nonetheless also destroy the protection *CCNV* confirmed for "commissioned" works for hire. Such protection would be lost by allowing a change in copyright ownership for such works based on the "intent" of the parties without establishing a change in authorship and without a signed writing. That would vitiate the express protection provided to commissioned works under § 101. *See* 17 U.S.C. § 101 (nine enumerated types of "specially ordered or commissioned" works become works for hire "*if the parties expressly agree in a written instrument signed by them* that the work shall be considered a work made for hire") (emphasis added). And the decision below completely guts the implied prohibition on changes in initial ownership for all other commissioned works not included in the nine enumerated categories. *See MGB Homes, Inc.* v. *Ameron Homes, Inc.*, 903 F.2d 1486, 1492 (CA11 1990) (appellant "was not the author of the house drawings under the 'work-for-hire' doctrine" because "architectural drafting does not fall within the nine enumerated categories of activities which may be done by independent contractors 'for hire'"); *cf. United States* v. *Lopez*, 514 U.S. 549, 553 (1995) ("'enumeration presupposes something not enumerated'") (citation omit-

Like the work-for-hire rules in *CCNV*, the rules governing initial ownership and transfer of copyrights in derivative works carry the same "profound significance for freelance creators –including artists, writers, photographers, designers, composers, and computer programmers – and for the publishing, advertising, music, and other industries which commission their works." 490 U.S. at 737 (footnote omitted). Indeed, given the variety and value of derivative works such as movies, television shows, computer programs, and musical performances, the potential economic impact of the Seventh Circuit's ruling is tremendous.

The effective geographic scope of this case also is disproportionately large given that the wide distribution of copyrighted materials makes forum-shopping especially easy. Persons seeking to expropriate the copyrights of derivative authors can readily obtain venue in the Seventh Circuit for claims of infringement against the authors of derivative works or their valid transferees. 28 U.S.C. § 1400(a) (suit where defendant may be "found"). Given that virtually any motion picture – or other significant derivative work – can be expected to be distributed in a major city such as Chicago, persons making undocumented claims of ownership will be able to bring suit within the Seventh Circuit and obtain the dubious "benefit" of the rule announced in this case. The predictably wide distribution of copyrighted works thus undercuts the usual geographic limitations on an individual circuit's rulings and thus makes the questions presented herein national issues regardless of whether any other circuits follow the Seventh Circuit's erroneous path.

The special nature and protection of copyrights and the disproportionate impact that can flow from a single appellate decision has often caused this Court to grant certiorari in cas-

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ted). The Seventh Circuit's holding that initial ownership can be adjusted by the bare intent of the parties thus creates a gaping hole in the consciously enumerated limits of the work-for-hire provisions.

cases that are disruptive to the copyright system even absent a direct circuit split on a narrowly conceived issue. *See New York Times Co.* v. *Tasini*, 533 U.S. 483 (2001) (reviewing issues regarding electronic distribution of collective works where petitioners only alleged conflicts in principle); *Campbell* v. *Acuff-Rose Music*, 510 U.S. 569 (1994) (reviewing a "fair use" issue where petitioner only alleged a conflict in principle); *Feist Publications, Inc.* v. *Rural Tel. Serv. Co.*, 499 U.S. 340 (1991) (reviewing originality issues concerning telephone books where only a conflict in principle with the sweat-of-the-brow doctrine). Such early intervention is appropriate given that a single circuit court decision can have national and global, not merely regional, impact on copyrights and create uncertainty stretching both forward and backward in time for numerous copyrights. That exaggerated impact, combined with the palpable error of the decision below, counsels prompt review by this Court.

Finally, the decision below also will significantly interfere with the Copyright Office's administration of the copyright registration and certification system. The Copyright Office will now be forced to reconcile inconsistent standards of copyright ownership when deciding whether to accept a registration claim and issue a certificate. *See infra* at 12-14, 16, 18. That will interfere with a system that not only is important in providing a central source of notice as to copyright ownership – protecting both owners of copyrighted material and those seeking licenses from them – but also impacts any eventual litigation concerning copyright ownership. Successful registration of a copyright "made before or within five years after first publication of the work shall constitute *prima facie* evidence of the validity of the copyright and of the facts stated in the certificate," 17 U.S.C. § 410(c), and allows copyright owners to institute infringement actions.

But if the Register of Copyrights "determines that, in accordance with the provisions of this title, the material deposited does not constitute copyrightable subject matter or that

the claim is invalid for any other reason, the Register shall refuse registration." *Id.* § 410(b). Such a refusal, while not dispositive in a court, does deny a claimant the presumption that flows from registration. It also requires a claimant suing for infringement to serve notice of the action and a copy of the complaint on the Register of Copyrights, who "may, at his or her option, become a party to the action with respect to the issue of registrability of the copyright claim." *Id.* § 411(a). That intervention option reflects the significant interest of the Copyright Office in the registration system, and consequently in anything that might undermine the operation of that system. The decision below would do precisely that, and interfere with both government administration of the copyright system and private reliance on otherwise clear rules regarding copyright ownership and transfer.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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